HOUSING MARKET OUTLOOK
Québec CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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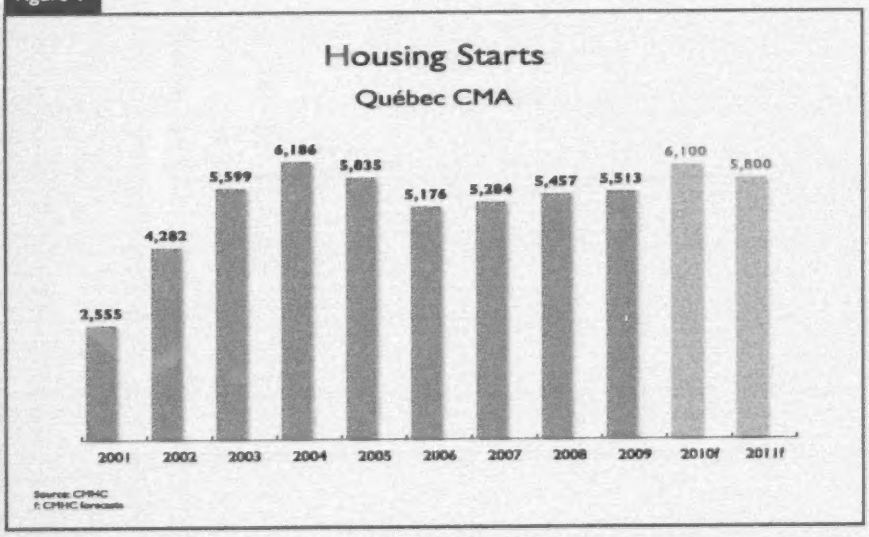
Québec area stands out[1]

After having resisted the economic jolts, the labour market is still performing surprisingly well as, this past September, the Québec area had the lowest unemployment rate in Canada, at 4.7 per cent. In fact, the employment level reached a peak of 413,400 persons, which kept the unemployment rate below the 5-per-cent mark, despite a significant increase in the labour force.

Full-time employment was affected by the economic conditions prevailing in 2009 but has since picked up and is now nearing the level observed in 2008. Most of the losses have been recovered in the case of full-time jobs, while part-time employment has remained relatively stable and has

Figure 1



[1]The forecasts provided in this document are based on the information available on October 8, 2010.

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even posted notable growth since June.

The strong employment situation has been essentially attributable to the service sector, as the repercussions of the economic downturn are still being felt in the goods-producing sector. As well, even if employment in the construction sector is not at the levels observed in recent years, this industry is still a pillar of the economic recovery in the area on account of the investment programs for road infrastructure repair, the development of major institutional and commercial real estate projects and the strength of residential construction.

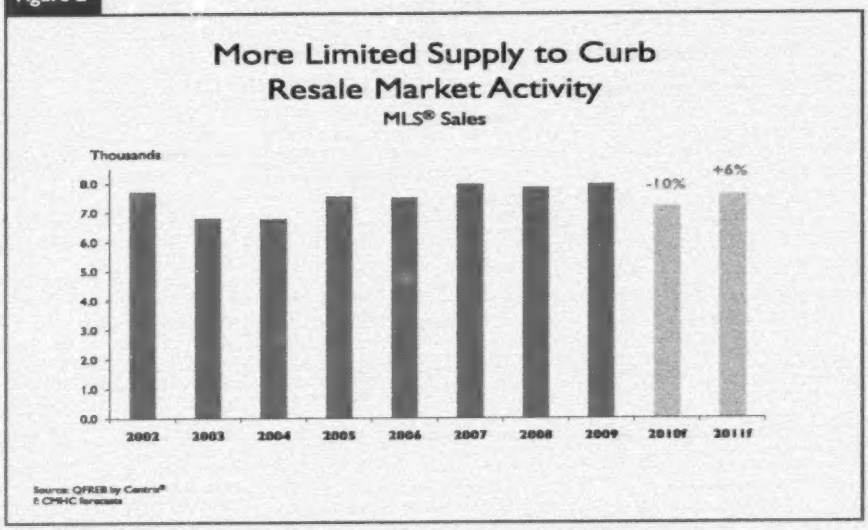
On the job market, the year 2010 will clearly reflect not only the first signs of recovery but also the combined efforts of the different levels of government to support the economy. In all, employment will grow by 1.7 per cent in the area, as nearly 7,000 jobs will be created.

In 2011, the expansion of the economy (including the overall construction sector) will help keep the labour market growing at a relatively strong pace, such that employment is expected to rise at a rate similar to the gain recorded in 2010 (+1.5 per cent). This employment growth will result in a steady demand on the housing market.

Demographics: migration to stimulate housing demand

The vigorous employment growth helped attract labour from other areas across Quebec, and also from abroad. As well, even though interprovincial net migration remains negative, the deficit has decreased, as the census metropolitan area (CMA) is losing fewer residents to other provinces

Figure 2



than before. In 2008, net migration in the CMA reached a peak of 5,533 people. In fact, it is estimated that the overall result for the current decade (2000-2009) will surpass 40,000 people, compared to a total of about 20,000 for the 1990s.

The expansion of the job market will attract workers from other areas and newcomers, as well as help retain residents in the area. Net migration in the CMA will therefore be maintained at high levels over the coming years, which will stimulate housing demand.

Mortgage rates

On September 8th, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Existing home market: activity to be curbed by more limited supply

The number of transactions on the existing home market will fall in 2010. This trend, already under way, followed the move-up and catch-up

movement observed in late 2009 and early 2010. Mortgage rates kept decreasing throughout 2009 and hit an all-time low in the last quarter, which strongly stimulated housing demand. A number of buyers therefore made the decision to move up their purchases, and others finally decided to buy a property, after having put that plan on hold, given the economic uncertainty.

The effects of the strong demand were felt, as the market then tightened and prices registered significant hikes. Subsequently, in the second quarter of this year, transactions began to decrease. Still, the market remained tight, and prices continued to increase.

Properties for sale and new listings are on the decline, which is causing supply to stay rather limited (see figure 3). In fact, the last time the level of properties for sale was this low dates back to the beginning of 2005.

In 2011, the robust job market, associated with the strong migration and continued favourable financing conditions, will maintain a high demand on the existing home market.

However, over the coming years, the growth in the cohort of people aged 75 years or older will be rather stable, which will keep supply limited on the resale market. In fact, some older households decide to sell their property to move to a dwelling that requires less maintenance—a condominium, for example—or that better suits their needs, like a retirement home unit.

Given these trends, the resale market should ease slightly but will still remain tight this year and next year.

This means that, in 2011, although the market will ease slightly, the volume of transactions will remain limited on account of a restricted supply. As a result, MLS® sales will rise by 6 per cent to a total of 7,600 transactions. Market conditions will reflect a continued tight situation, and prices will register an increase that will be rather significant (+8 per cent), although not as strong as in 2010 (+11 per cent). The average price of residential properties will reach $254,000.

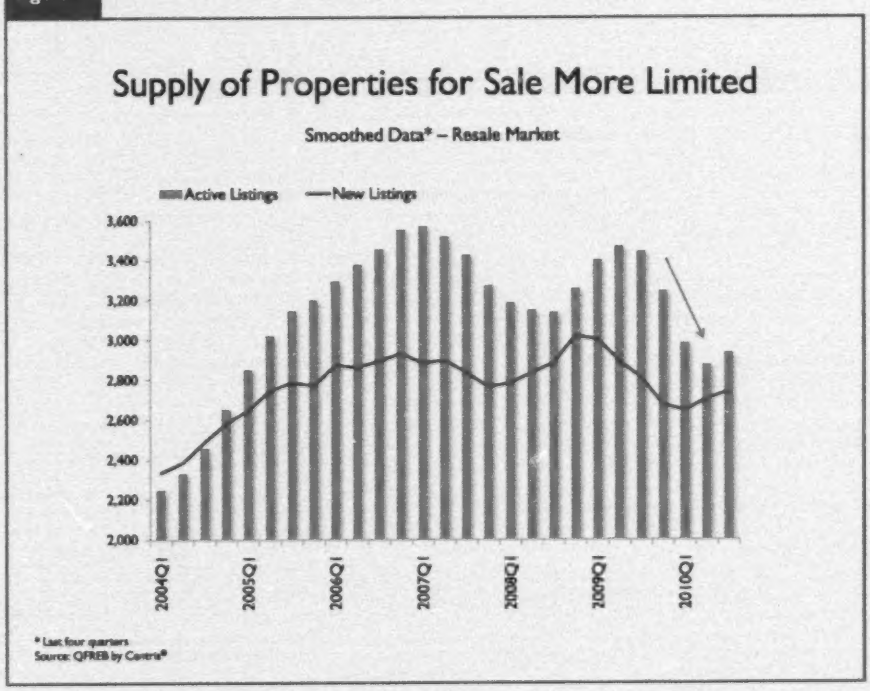
The more limited supply than before is also having other effects on the housing market. One such effect is the shift in demand toward the new home market, with some buyers not finding a property that suits them on the existing home market and consequently opting for a new dwelling. Residential construction is therefore favoured not only by the prevailing economic conditions and the low interest rates but also by the reduced supply on the resale market.

Residential construction to stay strong

The year 2010 will see very intense housing activity in the area. Starts will exceed the 6,000-unit mark, reaching 6,100 units, for an increase of 11 per cent over 2009. This strong construction will result from several forces at play in the area, including a solid job market, low interest rates, a limited supply on the resale market and a strong demand on the rental market.

In 2011, activity will be on the decline (-5 per cent), following the end of the move-up and catch-up effect caused by households who wanted to benefit from the low mortgage rates. Still, construction will remain relatively strong, as the climate of recovery, combined with a limited supply on the existing home market, will be fuelling demand for new houses.

Figure 3



Single-detached home building is currently on the rise, after several successive annual declines. While their higher prices than other types of properties meant that they were out of reach for a number of households, single-detached houses will show renewed popularity this year, thanks to the low mortgage rates and limited supply on the existing home market.

Still, their performance will be well below the levels once recorded in the Québec area. In fact, in 2005, single-detached home starts had attained 2,528 units, while they will reach 1,800 units in 2010 and then fall by 6 per cent in 2011, reflecting the end of the catch-up and move-up wave.

Multi-unit housing construction will be more at the forefront in 2010 and 2011. In fact, semi-detached and row homes will retain their price advantage and continue to gain market shares in the CMA. Condominiums will also keep getting more popular, for two reasons. First, most new households will be composed of baby boomers and, second, the price of condominiums generally makes them relatively affordable for young households. The construction of rental housing (excluding retirement homes) will also do well, thanks to the strong demand and the low vacancy rate. Activity will be less significant in the retirement rental housing segment, though, on account of the strong activity in recent years, the increase in the vacancy rate for units of this type, and the limited influx of people aged 75 years or older over the coming years.

Multi-unit housing starts will reach 4,300 units in 2010, up by 14 per cent over last year. For 2011, construction is expected to remain strong but decrease slightly (-5 per cent). This decline will be attributable to the end of the catch-up and move-up wave, particularly for semi-detached and row houses, as well as duplexes. The construction of condominiums and rental housing (excluding retirement homes) will stay at levels similar to the 2010 volumes.

Rental market: vigorous demand to keep conditions tight

The strong migration in recent years, along with the job creation, contributed to tightening the rental market, despite the movement to homeownership. As a result, last October, the Québec area had the lowest vacancy rate in Canada, with the Regina CMA (0.6 per cent). As well, traditional rental housing construction was not sufficient to ease the market. In 2007 and 2008, seniors' housing units accounted for most of the rental dwellings started in the area.

However, the supply of traditional rental housing units started rising in 2009 and will continue to do so over the coming years. It is therefore thanks to an increase in the supply that the market will manage to ease slightly in 2011, and the vacancy rate should reach 0.8 per cent. In fact, the units on which construction got under way in 2010 will be gradually completed by 2011. Still, the vigorous job market and significant migration will continue to put pressure on this market over the coming years.

The particularly tight conditions led to an increase of 3.5 per cent in the average rent for two-bedroom apartments in 2009 (to $676). In 2010, the hike should be similar, and the average rent for apartments of this type will reach $700. Finally, in 2011, conditions will remain tight, and the average rental rate will rise to $721.

Demographics: what will happen over the longer term?

Over the longer term, demographics is unquestionably a key element for the future of the housing market. This special section examines several phenomena that will have an impact on a number of aspects of the housing market in the Québec area.

Migration is unquestionably a key element for growth in households

Currently, the number of households in the Québec CMA is estimated at 335,000 and should reach 360,000 by 2018, according to our latest demographic projections. To better appreciate the significance of migration, a demographic projection scenario was established excluding this element (net migration = 0). The results then show that the number of households would rise slightly until 2022 and then start declining gradually.

Migration is therefore the driving force behind demographic growth in the area and, good news, it has continued at a solid pace for the past few years. In 2008, net migration in the CMA reached a peak of 5,533 people. In fact, it is estimated that the overall result for the current decade (2000-2009) will surpass 40,000 people, compared to a total of about 20,000 for the 1990s. Migration will stay strong over the coming years and help maintain the housing demand.

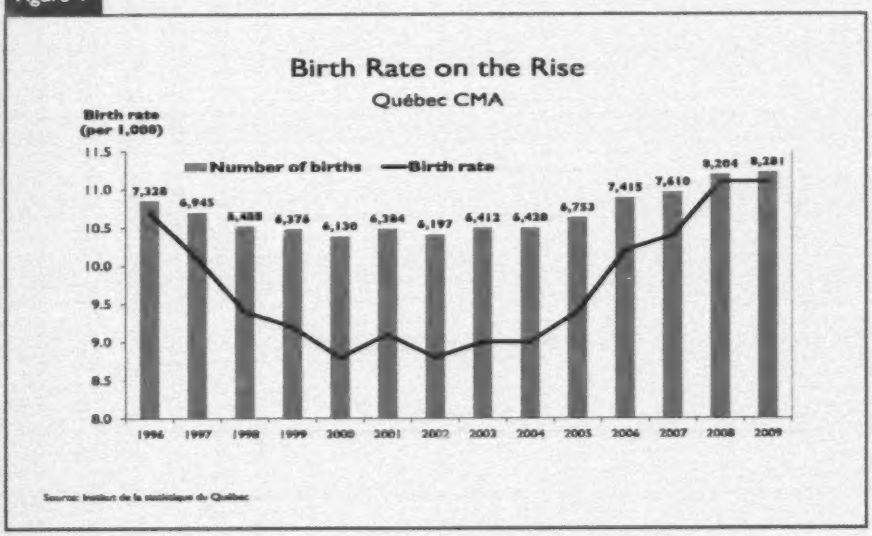
Increase in birth rate[2] boosts homeownership

Even if baby boomers strongly influence market trends, younger households should not be forgotten. While the economic conditions prevailing in recent years have been favourable to them, the increase in the birth rate observed recently is also a factor that will likely prompt a number of them to access homeownership[3]. In fact, among young adults aged from 20 to 34 years, it is the presence of children that accounts for a higher level of homeownership . Housing demand from young households will result essentially from a movement to homeownership, which should continue over the coming years.

The fertility rate[4] provides a more accurate picture of fertility by age group than does the birth rate. It should be noted that the first rate is surging among women aged from 30 to 34 years, having now risen to 119.8 per 1,000 women in the Québec area, from 82 in the year 2000. Homeownership is therefore favoured by the recent rise in the fertility rate, particularly among the group aged from 30 to 34 years.

Another interesting fact is that the fertility gap observed between the Québec area and the provincial average is narrowing. In the early 2000s, the total fertility rate[5] for the area was 13 per cent less than the provincial average while, in 2009, this gap had decreased to 7 per cent. It is believed that this demographic trend observed across the province is related to the government programs introduced to support families, such as the Quebec Parental Insurance Plan, which provides parents with more leave following the birth of their children. It can therefore be expected that the number of births will remain significant over the coming years.

Figure 4



Baby boomers at the heart of the housing market

According to CMHC's forecasts, household formation will slow down over the coming years. That being said, the composition by age group of existing households will be key in providing a better understanding of the housing demand characteristics.

The demographic projections reveal that households with a primary maintainer aged from 55 to 74 years will account for an increasingly significant share. It is estimated that these households will represent 36 per cent of all households by 2020. Households with a primary maintainer aged from 35 to 54 years will make up a less significant proportion in 2020 than they do now. The aging of the baby boomers will have an impact on the housing demand, which will largely be expressed through their tastes and preferences.

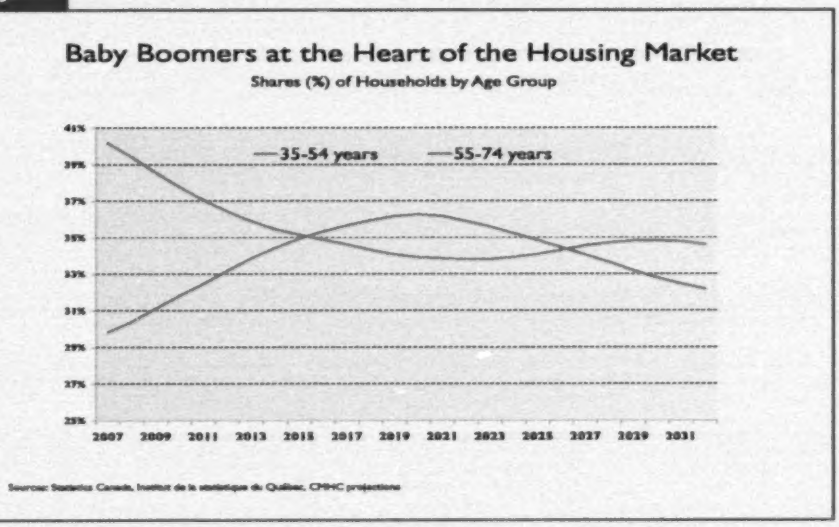
The aging of the population will propel the condominium market segment. In fact, Canadian data indicate that, in 2006, 57 per cent of condominium owners were over 50 years old[6]. The expansion of this segment is already being felt, on both the existing and new home markets. One can also wonder about the potential impacts

[2] The birth rate is a statistic corresponding to the number of live births per inhabitant (average population for the year).
[3] Statistics Canada, *Homeownership over the Life Course of Canadians: Evidence from Canadian Censuses of Population*, 2010.
[4] The fertility rate at a given age (or for a given age group) is the number of children born live to women of this age during the year, in relation to the average population of women of the same age for the year.
[5] The total fertility rate is the average number of children that would be born live to a woman (or group of women) during her lifetime if she were to pass through her childbearing years conforming to the age-specific fertility rates of a given year. This rate is sometimes used to establish the current average number of children per woman.
[6] CMHC, 2010 Canadian Housing Observer.

on housing supply. As a number of baby boomers will decide to sell their single-detached houses to move to other types of housing, this will increase supply on the existing home market.

However, it should be noted that the gradual shift in the housing supply and demand from baby boomers should leave the housing sector time to adapt to the changing needs of consumers, which will reduce the risk of a mismatch between supply and demand (see box).

Figure 5



Housing choices of baby boomers are likely to shift gradually as they age[1]

Households move less often as they get older. In 2006, 40 per cent of households with maintainers aged 40 to 49 had moved at least once in the previous five years. By contrast, fewer than 30 per cent of households with maintainers in their fifties had moved within the last five years, and percentages declined to under 20 per cent for households with maintainers aged 70 or more[2].

The comparatively low mobility of older households implies that many have strong attachments to their homes and associated routines, memories, and social networks. The aging of baby boomers will mean growing demand in coming decades for home adaptations as well as for maintenance and other services that enable people to continue living independently in their homes.

Despite attachments to their homes, however, people do move as they get older. Retirement is a major milestone. So is the departure of children from the family home. Families whose children have left home may opt for smaller dwellings that are easier to maintain, such as condominiums. People currently living within commuting distance of their work may decide to move to a different community in order to be near family members or because of advantages with respect to recreation, services, or climate. In 2006, about 40 per cent of households with maintainers aged 55 or older who had moved in the previous five years were living in a different town than in 2001.

Mobility patterns imply gradual turnover of the housing stock as baby boomers approach and reach retirement. A gradual shift in the housing demands of baby boomers would provide the housing industry with breathing room to adjust to the changing needs of consumers, lessening the likelihood of mismatches between supply and demand. Since the oldest baby boomers are now only just on the verge of turning 65, it will take decades for the full effect of population aging on housing markets to materialize.

[1] Excerpt from the 2010 Canadian Housing Observer, published by CMHC.

[2] Mobility rates describe the behaviour of households living in private dwellings. People moving from a private home to a nursing home or to some other type of collective dwelling are not included in these data. For detail on reasons for moving at different stages of life, see "2001 Census Housing Series: Issue 10 Aging, Residential Mobility and Housing Choices." Research Highlight. Socio-economic Series; 06-001. Ottawa: Canada Mortgage and Housing Corporation, 2006.

Forecast Summary Québec CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	7,954	7,838	7,963	7,200	-9.6	7,600	5.6
MLS® Active Listings	3,273	3,254	3,243	2,900	-10.6	3,200	10.3
MLS® Average Price ($)	181,184	197,450	212,198	236,000	11.2	254,000	7.6
New Home Market							
Starts:							
Single-Detached	2,144	2,031	1,746	1,800	3.1	1,700	-5.6
Multiples	3,140	3,426	3,767	4,300	14.1	4,100	-4.7
Starts - Total	5,284	5,457	5,513	6,100	10.6	5,800	-4.9
Average Price ($):							
Single-Detached	236,794	261,871	294,172	315,000	7.1	330,000	4.8
New Housing Price Index (% chg.)	4.0	5.3	7.0	4.0	-	4.0	-
Rental Market[2]							
October Vacancy Rate (%)	1.2	0.6	0.6	0.6	-	0.8	-
Two-bedroom Average Rent (October) ($)	641	653	676	700	-	721	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	385,700	391,700	391,700	398,500	1.7	404,500	1.5
Employment Growth (%)	2.4	1.6	0.0	1.7	-	1.5	-
Unemployment rate (%)	5.0	4.5	4.9	5.0	-	5.0	-
Net Migration	4,172	5,184	5,533	6,000	8.4	6,100	1.7

[1] Source : QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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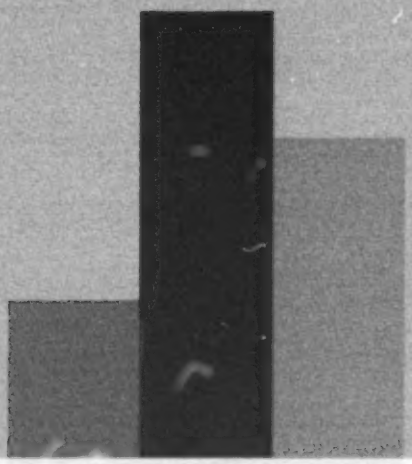

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